Gozlan Brothers Limited

1973 ANNUAL REPORT

Locations

Manufacturing:

Toronto
Montreal
New York

Service Depots:

Calgary
Edmonton
Vancouver

Buying Office:

Tel Aviv, Israel

Contents

Gozlan Brothers Limited

Financial Highlights

	1973	1972
SALES, Net of Excise and Sales Taxes	$11,003,976	$5,017,510
NET EARNINGS	1,569,480	685,715
EARNINGS PER SHARE	89.4¢	47.6¢
WORKING CAPITAL	2,919,511	594,368
TOTAL ASSETS	9,317,394	2,457,711
LONG TERM DEBT	178,213	103,500
NUMBER OF SHARES OUTSTANDING (Year End)	1,840,225	1,440,000

To Our Shareholders

I am pleased to state in this first Public Annual Report that 1973 was the best year in the company's 10 year history. We established new records for growth and profitability.

FINANCIAL RESULTS

Sales for the year ended December 31, 1973 were $11,003,976 an increase of 119 percent over sales of $5,017,510 in 1972. Profits increased 129 percent to $1,569,480 or 89.4¢ per share compared with $685,715 or 47.6¢ per share in the previous year.

YEAR IN REVIEW

In 1973 we embarked on a programme of diversifying our product lines, expanding our manufacturing facilities and making selective acquisitions. A series of acquisitions was successfully completed during the year. The more significant of these were the Lido Group, which established manufacturing and servicing facilities in the Province of Quebec and A & G Creations Inc., in New York which provided a foothold in the American marketplace. On the whole the programme has been highly successful. It established important new customer relationships and provided the company with the capability of producing many of the highly specialized supplies previously purchased from outside sources.

The company has built its reputation on being able to deliver large volumes of merchandise promptly to its customers. Our larger investment in inventories will ensure that this ability is maintained.

OUTLOOK

The Lido Group has recently accepted a proposal for a loan on favourable terms from a government agency. This will enable us to relocate and expand our production facilities in Montreal through the purchase of an existing 40,000 square foot building.

The company's future success will result from strengthening our position of leadership in the industry. We plan to add further to the existing product lines and maintain our commitment to customer service. We are confident that through the application of sound management principles and modern technology the company will continue to grow and experience a high level of success.

Roger Gozlan, *Chairman*

Claude Gozlan, *President*

APPRECIATION

The achievements of the company are due in large measure to the ability and dedication of our employees. On behalf of the Board of Directors I would like to extend appreciation to all our personnel for their substantial contribution to the progress of the company.

Toronto
March 28th, 1974.

CLAUDE GOZLAN
Chief Executive Officer

Gozlan Brothers Limited

The Company and its Products

Gozlan Brothers Limited and its subsidiaries manufacture and distribute a wide range of fine jewellery items. Among the company's products are ladies' and men's diamond rings, wedding rings, colour-stone rings with precious and semi-precious gems, fashion rings, clasps, lockets, charms, charm bracelets, cuff links, brooches, lockets and bangle-bracelets, all produced in gold and sterling silver.

Today with more than 600 employees and approximately 50,000 square feet of manufacturing facilities in three locations, the company has adopted modern mass production techniques. This enables the company to ship to more than 2500 customer locations including retail and catalogue chains as well as independent jewellers. The company has built a reputation for service which is unexcelled and guarantees deliveries within days rather than weeks.

The following pages contain a pictorial review of the company and its manufacturing facilities.

The management committee, chaired by the president, meets to plan for the coming months. Shown here, from left to right are: Gabriel Ohayon, manager of customer service; Rene Amiel, plant manager; Maurice Ohayon, vice president, manufacturing; Albert Asher, president, A & G Creations Inc.; Roger Gozlan, chairman; Claude Gozlan, president; Donald Goltman, president of the Lido Group; Jim Duke, treasurer and comptroller; David Talbot, vice president, corporate services; Martin Goldman, chief accountant. Not present: Alex Flynn, chief engineer; Dr. Leon Baum, metallurgist.

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1. Real-time access to a sophisticated corporate data-base is provided by these modern computer terminals. Management information is available on demand within seconds.

   Manufacturing details can be verified quickly since information on all of the items being manufactured are stored in the system.

2. The on-line computer system is used for accounts receivable, billing, sales analysis, stock control, accounts payable and accounting figures are available instantaneously to assist in keeping control over the company's finances.

3. Head office where accounting, administration, and financial control for the company and all the subsidiaries are centred.

4. The high security section of the plant where orders are processed through production control, inspection, and shipping.

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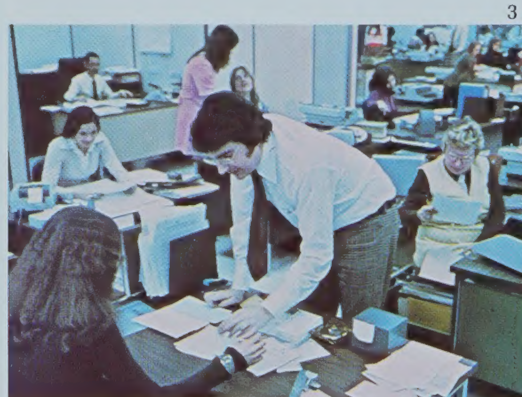

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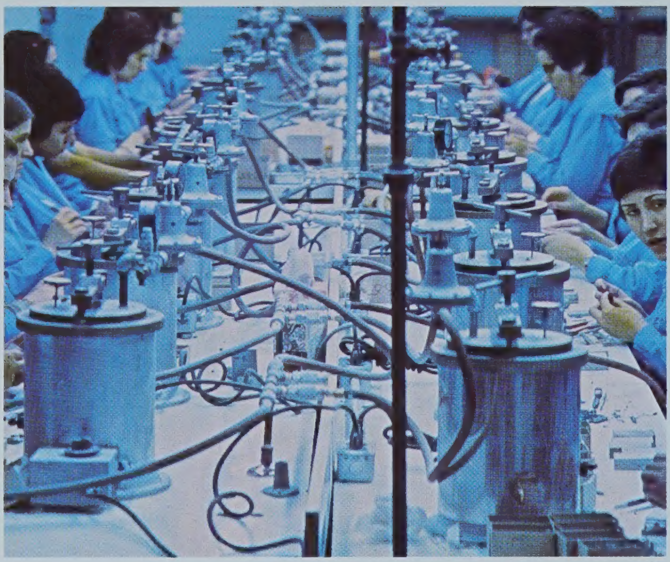

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1. One of the double rows of wax injection machines used in the multi-step casting process.

2. New designs are hand-crafted by skilled artisans.

3. Sorting and grading of diamonds and other genuine stones is done in the diamond control centre.

4. A diamond setter applies the finishing touches to an engagement ring before final polishing.

5. Gold melting in a high frequency centrifugal casting machine.

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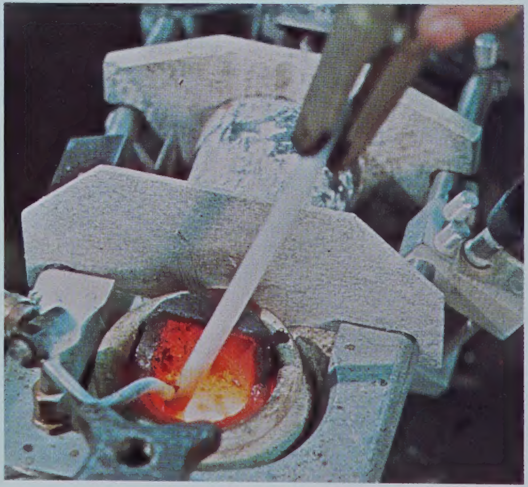

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1. Jewellers at their benches.
2. The polishing department where the finishing touches are applied.
3. Automatically controlled furnaces for precious metal casting.
4. The row of electronic casting machines.
5. The plating department.

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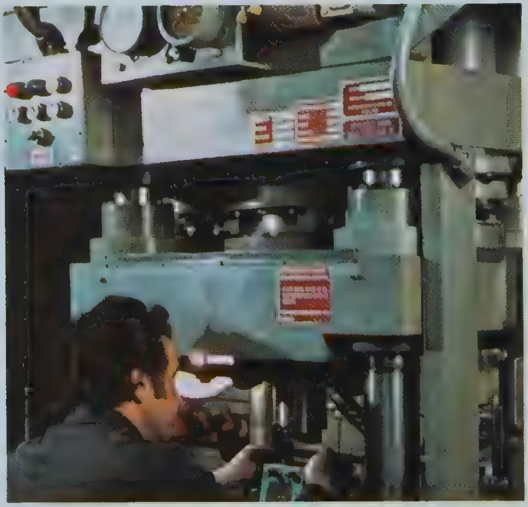

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1. The chief engineer adjusting sophisticated equipment.

2. The tool and die room where the die sets for punch presses are built.

3. One of the hydraulic presses used in the manufacturing of stamped jewellery.

4. A section of the stamping department where mechanical and hydraulic punch presses make wedding bands and jewellers' findings.

5. Automatic soldering of gold and silver using one of the large hydrogen furnaces.

Gozlan Brothers Limited

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1973

	1973	1972
Sales, net of excise and sales taxes	$11,003,976	$5,017,510
Earnings from operations before the following charges	$ 2,770,620	$1,343,506
Depreciation and amortization	119,321	34,593
Earnings before income taxes and extraordinary items	2,651,299	1,308,913
Income taxes	1,117,929	623,198
Earnings before extraordinary items	1,533,370	685,715
Extraordinary items	36,110	—
Net earnings	$ 1,569,480	$ 685,715

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1973

	1973	1972
Retained earnings, beginning of year	$ 941,938	$256,223
Net earnings for the year	1,569,480	685,715
	2,511,418	941,938
Expenses related to the issue of common shares, net of applicable income taxes of $61,178	147,941	—
Retained earnings, end of year	$2,363,477	$941,938

See accompanying notes

Gozlan Brothers Limited

CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1973

ASSETS

	1973	1972
Current:		
Cash	$ 25,986	$ 220,022
Accounts receivable	2,301,542	265,511
Inventory, at lower of cost and net realizable value	5,567,238	1,404,800
Advances to shareholders	—	36,794
Prepaid expenses and sundry assets	56,969	12,214
	7,951,735	1,939,341
Investments, at cost	25,100	100
Fixed assets	1,019,479	484,490
Other:		
Deferred charges, at cost less amortization	27,327	33,780
Excess of cost of investment in subsidiaries over net assets acquired	293,753	—
	321,080	33,780
See accompanying notes	$9,317,394	$2,457,711

Auditors' Report

To the Shareholders of
Gozlan Brother Limited

We have examined the consolidated balance sheet of Gozlan Brothers Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Gozlan Brothers Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of one of the subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Laventhol Krekstein Horwath & Horwath

Toronto, Ontario
February 19, 1974

Chartered Accountants.

LIABILITIES

	1973	1972
Current:		
Bank indebtedness	$2,950,682	$ —
Accounts payable and accrued liabilities	1,306,101	844,775
Income taxes payable	526,541	464,198
Current portion of long-term debt	2,400	36,000
Notes payable	246,500	—
	5,032,224	1,344,973
Long-term debt	178,213	103,500
Deferred income taxes	142,280	67,000

SHAREHOLDERS' EQUITY

Capital stock	1,601,200	300
Retained earnings	2,363,477	941,938
	3,964,677	942,238
	$9,317,394	$2,457,711

On behalf of the Board:

R. Gozlan (Director)

C. Gozlan (Director)

See accompanying notes

Gozlan Brothers Limited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1973

	1973	1972
Source of funds:		
Net earnings for the year	$1,569,480	$685,715
Depreciation and amortization	119,321	34,593
Deferred income taxes	75,280	67,000
Funds provided by operations	1,764,081	787,308
Issue of common shares	1,600,900	—
Increase in long-term debt	—	54,500
	3,364,981	841,808
Application of funds:		
Acquisition of shares of subsidiary companies less subsidiaries' working capital at date of acquisition	198,717	30,580
Purchase of fixed assets	554,924	437,748
Increase in deferred charges	21,447	—
Share issue expenses	147,941	—
Miscellaneous investments	25,000	3,200
Repayment of long-term debt	91,809	—
	1,039,838	471,528
Increase in working capital	2,325,143	370,280
Working capital, beginning of year	594,368	224,088
Working capital, end of year	$2,919,511	$594,368

See accompanying notes

Gozlan Brothers Limited

NOTES TO FINANCIAL STATEMENTS

December 31, 1973

1. Principles of consolidation:

These consolidated financial statements include the accounts of all of the company's operating divisions and subsidiaries all of which are wholly-owned.

	Effective Date of Acquisition
Subsidiaries:	
Lido Jewellers Company	January 1, 1973
Gendon Mfg. Jewellers Inc.	January 1, 1973
A & G Creations, Inc.	January 1, 1973
House of Lorant Limited	August 31, 1973
Division:	
J.B. Ronn	October 19, 1973

The financial statements of the United States subsidiary have been translated at the exchange rate prevailing at December 31, 1973.

All the acquisitions were accounted for by the "purchase accounting" method. It is the company's policy not to amortize excess of cost of investment in subsidiaries over net assets acquired, since management is of the opinion that there has been no diminution in value.

Marquise Jewellery Limited, a subsidiary owned since incorporation in 1966, was inactive during the year.

2(a) Subsidiaries acquired during current year:

The following is a summary of the net assets of the subsidiaries and division as at the dates of acquisition:

Net assets other than goodwill at book value	$349,587
Discount on purchase applied to fixed assets and patents	(22,103)
	327,484
Premium paid on purchase allocated to goodwill	293,753
Acquisition price	$621,237

Consideration for acquisitions:

Cash paid on closing			$202,324
Promissory notes due as follows:			
Due Date	Interest Rate		
Jan. 12, 1974	Nil	$ 10,000	
Jan. 15, 1974	Nil	236,500	246,500
Jan. 15, 1975 (i)	Nil	50,000	
Jan. 1, 1978	Nil	61,203	
Jan. 1, 1979	5%	12,242	
Jan. 1, 1980	5%	12,242	
Jan. 1, 1981	5%	12,242	
Jan. 1, 1982	5%	12,242	
Jan. 1, 1983	5%	12,242	$172,413
			$418,913
			$621,237

(i) The company has the option of issuing to the vendor shares of the company in lieu of the January 15, 1975 payment. The determination of the share price is based on the average of the averages of the closing bid and ask prices in November and December 1974.

(b) A & G Creations, Inc., the United States subsidiary, was acquired on January 1, 1973 for an aggregate minimum consideration of $208,891 (U.S. funds) of which $86,478 was paid on closing and the balance over a period of years. This amount represents the minimum consideration to be paid.

Additional consideration may become payable for the purchase of these shares depending upon the American sales and/or American earnings to a maximum consideration of $3,000,000.

The agreement provides for 50% of the total purchase or $500,000, whichever is less, to be paid in 1978 and the balance of the total price will be subject to a 5% promissory note. The note will require principal payments of five equal annual installments together with interest.

The note will also provide that at the time an installment becomes due and if the holder of the note shall be the vendor or his executor or administrator or his "family", said holder may elect to receive all or part of the payment of such installment and accrued interest by means of the issuance of shares of the company. For the purpose of determining the number of shares to be so issued, the value of each share shall be deemed to be the average market price during the months of November and December next preceding the payment date.

3. Fixed assets:

At cost less accumulated depreciation and amortization:

	1973	1972
Machinery and equipment	$ 934,307	$347,689
Leasehold improvements	311,939	212,503
Automobiles	29,868	2,942
	1,276,114	563,134
Accumulated depreciation and amortization	256,635	78,644
	$1,019,479	$484,490

Depreciation and amortization has been provided for, using primarily the straight-line method, over the estimated useful life of the assets.

4. Bank indebtedness:

A portion of accounts receivable and inventories, having an approximate carrying value of $6,085,000, is pledged as collateral for bank indebtedness.

5. Long-term debt

	1973	1972
Bank loan	$ —	$139,500
Balance due on acquisition of subsidiaries	172,413	—
Industrial Development Bank	8,200	—
	180,613	139,500
Less current maturities	2,400	36,000
	$178,213	$103,500

The payments in each of the next five years required to meet principal retirement of the above debt are as follows:

1974	$ 2,400
1975	52,400
1976	2,400
1977	1,000
1978	61,203

The Industrial Development Bank loan is secured by a chattel mortgage on certain fixed assets with an approximate carrying value of $53,000.

6. Deferred income taxes:

The companies charge operations with income taxes applicable to current earnings. Income taxes deferred by claiming deductions for income tax purposes in years other than the year in which charges are made to operations are shown in the balance sheet as deferred income taxes.

7. Capital stock:

i) Authorized:

5,000,000 common shares, without par value.

ii) Issued:

	Number of Shares	Total Consideration
(a) by Articles of Amendment dated February 5, 1973, 300 common shares were subdivided into	1,440,000	$ 300
(b) by issuance and sale of 400,000 common shares for cash pursuant to an underwriting agreement dated March 5, 1973	400,000	1,600,000
(c) by issue of common shares for cash pursuant to the employee stock option plan	225	900
	1,840,225	$1,601,200

iii) The company obtained Articles of Amendment dated February 5, 1973 which, among other things:

(a) cancelled all the authorized preference shares.

(b) changed and increased the authorized common shares from 20,000 shares, par value of $1 each, to 5,000,000 common shares, without par value.

8. Stock options:

The company has an incentive stock option plan which provides for the issuance of five-year options to officers and key employees to purchase common shares at prices not less than 90% of quoted market values at the dates of grants. These options become exerciseable by each optionee only as to part of the optioned shares in each year on a cumulative basis over the five years.

The following transactions in options occured during the year:

Options granted March 1, 1973 ($4.00 per share)	30,000
Options exercised	(225)
Options terminated	(750)
Options outstanding at end of year	29,025

62,750 common shares are reserved for the granting of additional options.

9. Earnings per share:

The calculation of the 1973 earnings per share is based on the weighted average number of shares outstanding.

The calculation of fully diluted earnings per share is based on the assumption that all employees' stock options outstanding were exercised on the date they were granted and the funds derived therefrom have been invested to produce an annual rate of return of 9% before applicable income taxes.

Earnings per share are as follows:

	1973		1972
	Earnings before Extra-ordinary Items	Net Earnings For Year	Net Earnings For Year
Earnings per share	87.3¢	89.4¢	47.6¢
Fully diluted earnings per share	86.4¢	88.5¢	

10. Statutory information:

i) Remuneration of directors and senior officers:

The aggregate direct remuneration paid by the company and its subsidiaries to the directors and senior officers as defined by the Business Corporations Act, 1970, amounted to $412,383.

ii) Shareholders' loans:

Loans to shareholders during the year amounted to $7,023 which, together with the balance outstanding at December 31, 1972, have been repaid.

11. Extraordinary items:

Gain on foreign exchange, net of applicable income taxes of $10,057	$38,293
Costs of negotiations of business acquisition, since terminated, net of applicable income taxes of $24,500	(34,396)
Income tax reduction realized on the carry-forward of a loss	32,213
	$36,110

12. Commitments:

i) Annual minimum rental payments aggregating $51,141 are payable under the terms of a long-term lease expiring June 30, 1982.

ii) Pursuant to an agreement dated December 22, 1972, the company has hired outside consultants to advise on a specific manufacturing process at an annual cost of $20,000 for a period of three years.

iii) Employment contracts:

The company has entered into employment contracts with certain employees with the following commitments:

1974	$150,000
1975	130,000
1976	75,000
1977	75,000

13. Subsequent event:

By the terms of an agreement effective January 7, 1974 the company acquired the assets of Bassett's Jewellery Manufacturing Company for a cash consideration of $126,368.

DIRECTORS

Albert S. Asher
Lewis Cohen
Norman L. Goldman
Donald A. Goltman
Claude Gozlan
Roger Gozlan
Wilfred Posluns

OFFICERS

R. Gozlan, Chairman of the Board
C. Gozlan, President & Chief Executive Officer
M. Ohayon, Vice President, Manufacturing
D.A. Talbot, B.A.Sc., P. Eng. Vice President, Corporate Services
J.A. Duke, M.C.I., Comptroller and Treasurer
D.A. Goltman, President, Lido Group
A.S. Asher, President, A & G Creations, Inc.
N.L. Goldman, B.A., L.L.B., Secretary

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company

AUDITORS

Laventhol Krekstein Horwath and Horwath

SHARE LISTING

Toronto Stock Exchange (GOZ)

HEAD OFFICE

60 Apex Road, Toronto, Canada M6A 1A6

Gozlan Brothers Limited

Manufacturing
Toronto
Montreal
New York

Service Depots
Calgary
Edmonton
Vancouver

Buying Office
Tel Aviv, Israel

Gozlan Brothers Limited

60 APEX ROAD, TORONTO, CANADA
M6A 1A6

Gozlan Brothers Limited

**6 months
ended June 30, 1974**

To Our Shareholders

I am pleased to report to you that the company continues to achieve favourable results. Earnings for the six months ended June 30, 1974, rose to $667,459 on sales of $6,670,951 from $417,732 on sales of $3,621,112 in the same period last year. Earnings per share on 1,868,275 shares were 35.9¢ compared to 24.7¢ on 1,690,055 shares last year.

The market for your company's products is expanding. We attribute this in part to the consumer's increased awareness of the value of gold and silver. As well, our aggressive marketing program is adding to our customer base.

The renovation of our new manufacturing facilities in Montreal is nearing completion and the Lido Group will be moving to these premises later this summer. In conjunction with the move, plans to increase our share of the international export market have been started.

The announced expansion programs of many of the volume retail merchandisers add strength to your company's sales prospects. In addition, because of the industry's traditional concentration of sales and earnings in the latter half of the year, we are confident that the company will continue to produce favourable results.

Toronto — CLAUDE GOZLAN
August 12, 1974 — President

Gozlan Brothers Limited
and wholly owned subsidiaries

Statement of Earnings
(Unaudited)

SIX MONTHS ENDED JUNE 30, 1974

	1974	1973
Sales	$6,670,951	$3,621,112
Earnings from operations before the following charges	1,235,129	809,536
Depreciation and amortization	80,891	50,117
Income before Income Taxes and extraordinary items	1,154,238	759,419
Income Taxes	494,179	324,847
Net earnings before extraordinary items	660,059	434,572
Extraordinary items		
Income Tax reduction realized on the carry forward of a tax loss	7,400	
Gain on foreign exchange net of applicable income taxes of $3,301	—	9,903
Costs of negotiations of business acquisition, since terminated, net of applicable income taxes of $19,366	—	(26,743)
	7,400	(16,840
Net Earnings	$ 667,459	$ 417,732
Basic earnings per share before extraordinary items	35.9¢	26.0¢
Basic earnings per share after extraordinary items	36.3¢	25.0¢
Fully diluted earnings per share before extraordinary items	35.5¢	25.7¢
Fully diluted earnings per share after extraordinary items	35.9¢	24.7¢

Notes:

The calculation of the 1974 basic earnings per share is based on the daily weighted average number of shares outstanding (1,840,250 shares).

The calculation of fully diluted earnings per share is based on the assumption that all employees' stock options outstanding were exercised on the date they were granted and the funds derived therefrom have been invested to produce an annual rate of return of 9% before applicable taxes (1,868,275 shares).

Gozlan Brothers Limited
and wholly owned subsidiaries

Statement of Source and Application of Funds
(Unaudited)

SIX MONTHS ENDED JUNE 30, 1974

	1974	1973
Source of Funds		
Operations		
Net earnings	$ 667,459	$ 417,732
Add: Non-cash charges to earnings		
Depreciation and amortization	80,891	50,117
Deferred income taxes	35,000	8,600
	783,350	476,449
Miscellaneous	8,232	—
Mortgage payable on land and building	445,000	—
Issue of common shares	600	1,600,000
Less: Commission and related expenses net of current income taxes of $37,011	—	(171,110)
	1,237,182	1,905,339
Application of Funds		
Land and building	554,783	—
Machinery and equipment	177,950	211,409
Repayment of long-term debt	51,372	139,500
Cash surrender value life insurance	14,000	—
Premium paid on acquisitions	40,000	123,071
Deferred costs	—	43,823
	838,105	517,803
Less: Consideration for acquisitions of subsidiaries not due within the next twelve months	—	172,413
	838,105	345,390
Increase in working capital	399,077	1,559,949
Working capital, beginning of period	2,919,511	631,964
Working capital, end of period	$3,318,588	$2,191,913